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# QUÉBEC SALES TAX
# Technical document

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# Québec Sales Tax

## Technical document

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# Introduction

On August 30, 1990, the Minister of Finance of Québec made a Minister's Statement in the National Assembly announcing that, effective January 1, 1992, Québec would assume control of the administration of the federal goods and services tax (GST) within Québec, as well as a reform of Québec's consumption tax system to substantially harmonize it with the GST.

This decision will have substantial consequences on the orientation of the Québec government's fiscal policy over the next few years, and is the result of on-going consultations with the federal government to mitigate the administrative complexity arising from the coexistence of the current Québec consumption tax system with the new GST system.

The option that has been chosen, i.e. the transfer of the administration of the GST to the Québec government and the reform of consumption taxes, mainly the retail sales tax, is of crucial importance to the future orientation of Québec's taxation system. It will allow Québec to retain a determining role in the orientation and management of fiscal policy within its borders.

This reform also provides an opportunity to renew a retail tax system that no longer responded adequately to Québec's modern economic environment. By broadening the application of the Québec sales tax (QST) to most property and services subject to GST, it will be possible to reduce the sales tax rate to 7 % as of January 1, 1992.

This reform will strengthen Québec's industrial structure. The refund of tax paid by businesses on their inputs will reduce the cost of investments and make Québec products more competitive on domestic and world markets. In so doing, Québec and Canada join some 50 countries that have already opted for a VAT (value added tax) consumption tax. By providing Québec's economy with new assets to more adequately respond to the increasingly competitive world economic environment, this reform will promote greater job creation. In the medium term, it is estimated that real GDP will rise by 0.5 % as a result of this reform.

The unified administration and substantial harmonization of Québec's tax system with that of the federal government will greatly simplify the task of merchants. Businesses will be spared unproductive expenditures.

Furthermore, because of the introduction of a new refundable sales tax credit, amounting to $ 230 for a family with two children, there will be no increase in the tax burden for less affluent households. The measures announced on August 30, 1990, in particular the indexation of recognized essential needs in the tax system and the income security system, will result in substantial gains for couples with children with an income of up to $ 50 000. The compensating measures included in the reform continue the efforts of recent years to improve the situation of low and middle-income households, especially those with children.

Finally, as a result of this reform, the tax burden will again be reduced, by $ 523 000 000, including a reduction in consumption taxes of $ 239 000 000.

As was indicated in the Minister's Statement of August 30, 1990, the reform of consumption taxes and the assumption of the administration of the GST by the ministère du Revenu du Québec will occur over a number of stages. Most of these have already been completed or are in progress. In particular, the governments of Québec and of Canada signed a memorandum of agreement on August 30, 1990 concerning the assumption by the ministère du Revenu du Québec of the administration of the GST within Québec. On December 14, 1990, the National Assembly passed amendments to the Retail Sales Tax Act required to implement the provisions that came into force on January 1, 1991. On December 21, 1990, the two governments concluded a reciprocal taxation agreement concerning the application details of consumption taxes on their own activities and those of their corporations. The hiring of staff, the implementation of a structure to enable the ministère du Revenu du Québec to take over the administration of the GST as of January 1, 1992, and a detailed agreement between the two governments concerning the transfer of the administration of the GST will soon be finalized.

Another stage must be completed to finalize this reform once this technical paper is published. This is tabling of a bill, to be passed by the National Assembly before the end of autumn 1991, that is required to implement the entire reform of consumption taxes as of January 1, 1992.

This document contains the essential features of the changes required to implement the reform announced last August 30. It's purpose is to inform taxpayers and businesses of the application details of these changes so that they can make representations and proposals to the ministère des Finances. Such representations and proposals should be submitted preferably before May 1 so that the bill can be published before next summer.

The general approach in this document is to avoid a detailed description of the GST system. In addition, since the QST system will in general be harmonized with that of the GST, an exhaustive list of rules that will be harmonized has not been provided.

The features described in this technical paper include measures specific to Québec's tax system. The paper also discusses some features it was considered advisable to include even though, generally speaking, they are harmonized with the federal tax system. It also contains a brief review of some measures that have already been announced.

The description of measures specific to Québec does not cover their incidence on the other features of the QST system, it being understood that adjustments arising from these specific measures will, where necessary, be taken into account.

Finally, other provinces' tax systems were taken into consideration in developing the fiscal measures of the QST system. Should some provinces decide to change their tax systems, Québec could review some of its tax measures to improve the integration of Québec's system with them.

# General statement

As was announced last August 30 in the Appendix to the Minister's Statement concerning the administration of the GST and the reform of consumption taxes in Québec, beginning on January 1, 1992, the QST, like the GST, will apply to all supplies of personal property, real property and services made in Québec, subject to specific features in Québec. In general, the QST and GST tax bases will be identical, especially in regard to the supply of goods and services to consumers.

As a result of this harmonization, all existing exemptions will be eliminated effective January 1, 1992. In particular, these exemptions cover intangible rights, production equipment, conditioning materials, certain purchases by farmers and fishermen and magazine subscriptions. The impact of the elimination of these exemptions will be reduced since they will be replaced by exemptions provided for under the GST system, i.e. exempt supplies and zero-rated supplies. In addition, Québec's exemptions that have been fully harmonized with those of the GST and introduced in 1991 for the transition period will be retained.

Concerning the supply of property and services to businesses, unlike the GST, the QST will not apply to certain supplies that will constitute a category of supply specific to Québec's taxation system, hereinafter called "non-taxable supply". A non-taxable supply will consist of the supply of personal property or a service a person acquires exclusively to re-supply it. It will also include the supply of tangible personal property a person acquires to include as a component of another tangible personal property that will be supplied. Finally, it will also include real property acquired exclusively to be re-supplied by sale. This important distinction compared to the GST system reflects the provincial context.

With the exception of non-taxable supplies, application of the QST will be extended to all purchases by businesses. In view of the objective of eliminating cascading taxation caused by the application of the QST to the supply of goods and services to businesses, they will be entitled to reimbursement of the tax payable on such supplies. These input tax reimbursements (ITRs) may take the form of a reduction in the amounts of tax collected and otherwise remitted, or of a reimbursement. Generally, the taxation of inputs will have no incidence on businesses since they will obtain reimbursement of the tax paid on them.

The expansion of the tax base means the QST will apply to most supplies of property and services, except non-taxable supplies. In addition, the base will generally be harmonized with that of the GST. As a result, supplies of property and services generally exempted from GST and zero-rated supplies will generally be treated similarly under the QST. Furthermore, zero-rated supplies, taxable supplies and non-taxable supplies, other than exempt supplies, will entitle businesses to ITRs in regard to acquisitions of goods and services relating to such supplies while exempt supplies will not.

In general, supplies of property and services exempt under Québec's tax system will include, just as under the GST, the supply of certain real property and agricultural land in some circumstances, most supplies of health care services, educational services, child and personal care services, legal aid services and the supply of certain services by public sector bodies, including charities and non-profit organizations. Zero-rated supplies of property and services will include the supply of prescription drugs, medical devices and basic groceries, the supply of certain agricultural and fishery property, exports, the supply of certain transportation services and, unlike the GST, the supply of financial services.

Moreover, as announced last August 30, as of January 1, 1992, the tax on telecommunications and the tax on electronic advertising will be eliminated since the property and services they cover will be covered by the QST.

# 1. General application principles

The Appendix to the Minister's Statement of August 30, 1990 provided information on the fully implemented QST with respect to rules concerning, among others, imposition of the QST and its base having regard to those of the GST. As was indicated, these rules, which will become applicable in Québec's tax system as of 1992, will adopt the GST rules, with adaptations.

A purchaser who acquires a taxable supply of property or service made in Québec will have to pay a tax of 7 % of the value of the consideration paid or payable. The value of the consideration of a supply will include the GST payable on such supply. The purchaser bound by this obligation will be either a resident of Québec or a non-resident of Québec.

In addition, in regard to a taxable supply made in Québec, the QST will be payable at the same time as for GST purposes. The person who makes such a supply, whether residing in Québec or not, must collect the QST and remit it to the Québec government as its agent. However, persons not required to collect the GST on a taxable supply made in Québec will not be required to collect the QST on the same supply, except certain small suppliers designated as such in the GST system.

The QST will also apply to taxable tangible personal property brought into Québec by a person for his use or consumption in Québec as well as to taxable supplies of intangible personal property or services made outside Québec to a recipient who is a resident of Québec for use in Québec.

The provision of property or a service will constitute a supply that may be subject to the QST. Practically all transactions relating to property or a service will be covered. In particular, this will include sale, transfer, barter, exchange, rental, licence, gift or any other disposition.

In addition, the supply of property or of a service will constitute a taxable supply if made in the course of a commercial activity.

A commercial activity includes any business carried on by a person whether for profit or not, any adventure or concern in the nature of trade and any activity involving the supply of real property or of a right or interest in respect of real property.

However, a commercial activity does not include any activity to the extent that it involves the making of an exempt supply, any activity engaged in by an individual without a reasonable expectation of profit, or any activity in relation to an office of employment. Therefore, the tax will generally not apply to supplies of property or services by an individual.

As indicated in the general statement, a non-taxable supply will consist of the supply of property or of a service acquired by a QST registrant if :

– the property, if it is personal property, or the service is acquired exclusively for re-supply purposes ;

– the property, if it is tangible personal property, is to be a component in other tangible personal property intended for supply ; or

– the property, if it is real property, is acquired exclusively for the purpose of being re-supplied by sale.

Consequently, the QST system will include special rules reflecting the fact that such supplies are non-taxable.

A person who makes non-taxable supplies will be entitled to ITRs on the supplies it acquired in the course of its commercial activities relating to the non-taxable supplies it makes, provided they are not exempt supplies.

Moreover, an exempt supply of property or services will be a supply to which the tax does not apply but which will not give rise to ITRs.

In addition, a zero-rated supply of property or services will be a supply on which the rate of tax will be zero and which will give rise to ITRs.

## Taxable transactions in Québec

It was mentioned in the Appendix to the Minister's Statement of August 30, 1990, that the orientation adopted concerning the Administration of the GST and the Reform of Consumption Taxes in Québec that the orientation adopted concerning supplies made in Québec, imports into Québec and exports from Québec would be one of harmonization to the relevant GST rules, but that it would be necessary to adapt these rules to the provincial context of the QST.

Rules have therefore been prepared to determine which transactions will be taxable in Québec for the various goods and services.

In general, the rules that will apply in the QST system will be harmonized with those stipulated in the GST system. To determine whether supplies are made in Québec, the GST rules will be adapted to cover supplies made outside Québec but within Canada, as well as those made outside Canada.

As for imports to Québec, the rules stipulated under the GST system will generally apply in the QST system concerning the territory of Québec. Tangible personal property imported into Québec from outside Canada and subject to GST will also be subject to QST to the extent it is brought into Québec for use or consumption in Québec. In addition, tangible personal property brought into Québec and originating in Canada will also be subject to the QST if it is brought for use or consumption in Québec.

Similarly, the GST principles concerning the supply of intangible personal property or services, made abroad to a recipient who resides in Canada, which he has received for use in Canada, will be adapted in the QST system in regard to the supply of intangible personal property or services made outside Québec to a recipient residing in Québec for use in Québec.

Finally, the rules concerning the export of tangible personal property and the supply of intangible personal property and services to a non-resident of Canada stipulated in the GST system will generally be harmonized in regard to shipments of tangible personal property outside Québec, in Canada, exports of such property outside Canada, supplies of intangible personal property and services made to a person resident in Canada outside Québec and to a non-resident of Canada.

## *Tangible personal property*

### Supplies made in Québec

The supply made in Québec of tangible personal property located in Québec to a person who is a resident or a non-resident of Québec will be taxable if it otherwise constitutes a taxable supply because it is made in the course of a commercial activity.

*Supply by sale made outside Québec*

The sale of tangible personal property made outside Québec by a resident or a non-resident of Québec who carries on a business in Québec or who is a registrant, will constitute a taxable supply made in Québec of the property if delivered to the recipient in Québec or if it is made available to him in Québec.

*Supply made outside Québec other than by sale*

The supply made outside Québec other than by sale of tangible personal property by a resident or by a non-resident of Québec who carries on a business in Québec or who is a registrant, will constitute a taxable supply made in Québec if the recipient takes possession of the property in Québec, uses it in Québec or if it is made available to him in Québec.

*Supply of a book or periodical by a non-resident of Québec*

The supply by a non-resident of Québec of a book, a magazine, a journal or other periodical, regardless of the value of its consideration, sent to Québec by mail or courier will constitute a taxable supply made in Québec.

The non-resident of Québec must register for QST purposes if he solicits orders in Québec for the taxable supply of such property and must collect the tax on such supply.

Moreover, the recipient of such supply will be responsible for remitting the tax in the event that it has not been collected and, if he fails to make such remittance, a penalty may be imposed.

## Shipments outside Québec and reimbursements

The taxable supply of tangible personal property made in Québec will be zero-rated if the property is intended for shipment outside Québec. Moreover, the tax paid on the supply of tangible personal property can be reimbursed, in some cases, if the property is brought outside Québec.

*Zero-rating of tangible personal property shipped outside Québec*

The taxable supply of tangible personal property made in Québec will be zero-rated if :

– in the event the property is delivered in Québec, it is in particular intended to be shipped outside Québec and if it is not for the personal use or consumption of the recipient ;

– the property is acquired for shipment outside Québec and if it is delivered to the recipient outside Québec by mail or common carrier ;

– the property is acquired by an individual, in a licensed duty-free shop, for export.

*Reimbursement for tangible personal property brought and shipped outside Québec*

As in the GST system, a non-resident of Canada who pays the QST on the taxable supply of certain tangible personal property he acquired mainly for use outside Québec will be entitled to a reimbursement of such tax if he ships or brings the property outside Québec within 60 days of its supply.

Non-residents of Québec who are residents of Canada will be entitled to such reimbursement if the property is acquired in the course of carrying on a business. Such person will be entitled to the reimbursement of the QST he has paid on the supply of tangible personal property he acquired mainly for use in carrying on a business outside Québec and if the property is brought or shipped outside Québec within a reasonable period of time.

In addition, the GST rules granting a non-resident of Canada, who is not a registrant, a reimbursement of the tax paid on property or services acquired to be used or consumed directly in the production of export products and of intangible personal property intended to be incorporated into export products will be introduced into the QST system and will apply to non-residents of Canada and to residents of Canada outside Québec.

Furthermore, a resident of Canada outside Québec who acquires tangible personal property in Québec other than in the course of carrying on a business will be entitled to a reimbursement of the QST he paid on such property similar to the reimbursement available under the current system.

Finally, a non-resident of Québec who carries on a business will be entitled to a reimbursement of the tax paid for fuel purchased in Québec that is brought and used outside Québec similar to the reimbursement currently available.

**Tangible personal property brought into Québec**

In general, under the QST rules, any tangible personal property brought into Québec by a person for his use or consumption in Québec will be taxable, with the exception of tangible personal property that are otherwise zero-rated supplies for purposes of the QST as well as imported products that constitute non-taxable imports for purposes of the GST.

In addition, certain products brought into Québec that would constitute non-taxable imports for purposes of the GST had they originated outside Canada will not be taxable under the QST system if they originate in Canada but outside Québec. In particular, this will include :

- conveyances based outside Québec temporarily brought into Québec if used for interprovincial passenger or freight transportation ;
- conveyances and baggage temporarily brought by a resident of Canada outside Québec ;
- tangible personal property of individuals who come to establish their residence in Québec ;
- medals, trophies and prizes awarded outside Québec or won at competitions outside Québec ;
- tangible personal property returned to Québec after having been shipped outside Québec for repair under a warranty.

However, among others, the rule for the non-taxation of products concerning length of stay abroad in the GST system will not apply to tangible personal property acquired during a stay outside Québec but in Canada. This will also be the case for the rule covering products sent by mail or courier to Canada whose value does not exceed $ 40.

The tax relating to tangible personal property brought into Québec will be payable at the time such property is brought into Québec by the person who brings the property for his use or consumption in Québec.

The value on which the tax will be computed will be determined according to rules similar to the ones that currently apply under the sales tax system.

## *Intangible personal property*

**Supply made in Québec**

The supply made in Québec of intangible personal property, by a resident of Québec or a non-resident of Québec who carries on a business in Québec or who is a registrant, to a recipient who is a resident or a non-resident of Québec, will constitute a taxable supply if the property can be used in Québec and if it does not relate either to real property located outside Québec or to tangible personal property usually located outside Québec or to a service rendered outside Québec.

The supply made in Québec of intangible personal property by a non-resident of Québec who is not a registrant will constitute a taxable supply if it is made to a resident who receives the property for use in Québec other than exclusively in the course of business activities.

Subject to the special features of seminars and conferences, the supply made in Québec by a non-resident of Québec of an admission in respect of a place of amusement, a seminar, an activity or an event will constitute a taxable supply made in Québec if he has not acquired it from another person.

The supply of intangible personal property made outside Québec by a resident of Québec, or that made in Québec by a non-resident of Québec who carries on a business in Québec or is a registrant will constitute a taxable supply made in Québec if the recipient is a resident of Québec or a registrant and if the property can be used in Québec.

Such supply will also be taxable if the intangible personal property is related either to real property located in Québec or to tangible personal property usually located in Québec, or to a service rendered in Québec.

**Supply made to a non-resident of Québec**

The supply made in Québec of an invention, patent, copyright or other intellectual property or any right, licence or privilege to use any such property, may constitute a zero-rated supply if the recipient is a non-resident of Québec who is not registered.

**Supply of intangible personal property used in Québec**

The supply made outside Québec of intangible personal property will constitute a taxable supply if it is made to a recipient who is a resident of Québec who receives the property for use in Québec. However, this supply will not be taxable if the property is used exclusively in the course of commercial activities.

In addition, the exclusions stipulated in the GST system relating to imported taxable supplies other than products will be introduced into the QST system, with adaptations to include taxable supplies made in Canada outside Québec.

The tax relating to the taxable supply of intangible personal property will be payable at the same time as for GST purposes by the person who receives the property for his use in Québec.

Furthermore, in the case of the supply of intangible personal property between a permanent establishment in Québec and a permanent establishment in Canada outside Québec of the same business, the value of the consideration of the supply will be the fair market value of the property.

## *Real property and services related to real property*

**Supply made in Québec and outside Québec**

The supply made in Québec or outside Québec of real property located in Québec will constitute a taxable supply made in Québec, whether or not it is made to a resident of Québec.

This will also be the case for the supply, made in Québec or outside Québec, by a resident of Québec or by a non-resident of Québec who carries on a business in Québec or is a registrant, of a service related to real property located in Québec, whether or not it is made to a resident of Québec.

**Reimbursement in regard to short-term accommodation**

Non-residents of Canada will be granted a reimbursement of the tax they pay for the supply of short-term accommodation they receive in Québec. The rules in the QST system concerning this reimbursement will be the same as those stipulated under the GST.

## *Services*

**Supply made in Québec**

The supply of a service rendered in whole or in part in Québec will constitute a taxable supply made in Québec.

The supply of a service made in Québec by a non-resident of Québec, who does not carry on a business in Québec and is not registered will constitute a taxable supply if it is received by a resident of Québec who receives the service for use in Québec other than exclusively in the course of commercial activities.

**Supply of services received by a non-resident of Québec**

The general principle in the QST system will be that the supply of a service rendered in Québec to a non-resident of Québec, other than an individual, as well as that to an individual who is a non-resident of Québec will be zero-rated if he is not in Québec when the service is rendered.

However, the supply of the following services will not be zero-rated:

- a service, other than consulting or professional, intended for consumption or use in Québec;
- a service related to real property located in Québec;
- a service related to tangible personal property usually located in Québec or delivered in Québec;
- a postal service;
- a transportation service.

Furthermore, the supply of a service rendered in Québec to a non-resident of Québec who resides in Canada, related to tangible personal property situated in Québec at the time the service is rendered, will not be zero-rated.

On the other hand, other supplies of services will be zero-rated under certain conditions. In particular, this will apply to the following supplies:

- the supply of an advertising service if it is made to non-registered non-resident of Québec;

- the supply of a service provided in accordance with a warranty on tangible personal property made to a non-registered non resident of Québec;

- the supply of an emergency repair service, as well as any property supplied with the service, of a container used by a transportation business if the service is made to a non-resident of Québec;

- the supply of a service relating to taking up residence or establishing a business in Québec of the advisory, consulting, research or transportation service is rendered to a non-resident of Québec;

- the supply of a service relating to tangible personal property usually located outside Canada subsequently brought and shipped if the property is brought for the sole purpose of having the service performed;

- the supply of a service of acting as agent if the service is performed for a non-resident of Québec and relates either to property shipped outside Québec and is zero-rated, or to a service rendered to a non-resident of Québec and is zero-rated, or to a transaction made outside Québec.

**Supply of services used in Québec**

The supply of a service made outside Québec will constitute a taxable supply if the service is rendered to a recipient residing outside Québec and if he receives it for use in Québec. However, this supply will not be taxable if the service is used exclusively in the course of commercial activities.

In addition, the exclusions mentioned in the GST system concerning taxable imported supplies other than products will be introduced into the QST system, with adaptations to include taxable supplies made in Canada outside Québec.

The tax relating to the taxable supply of a service will be payable at the same time as for GST purposes by the person who receives the service for his use in Québec.

Furthermore, in the case of the supply of services between a permanent establishment in Québec and a permanent establishment in Canada outside Québec of the same business, the value of the consideration of the supply will be the fair market value of the service.

# 2. Review of certain previously announced measures

## Calculation of the tax with a rounding factor

As was announced last August 30, the rule for calculating the tax with a rounding factor has been harmonized with the GST rule as of January 1, 1991. This rule will continue to apply after 1991.

## Gift certificates

As was announced last August 30, the tax treatment of gift certificates has been harmonized with that of the GST as of January 1, 1991, subject to adaptations that may be required in view of Québec's special features. The current tax treatment of gift certificates will be maintained.

## Returnable containers

As of January 1, 1992, unlike the current situation, the QST will apply to the deposit payable by the consumer so that the QST system is better adapted to that of the GST for returnable beverage containers. If the container is returned to the manufacturer, he will be entitled to a reimbursement of the tax on the deposit if the tax and the deposit have been reimbursed to the consumer.

## Discount coupons

The ministère des Finances information bulletin 90-5, issued November 1, 1990, stated that, for 1991, GST procedures concerning discount coupons issued by a manufacturer would be applied under the QST system. The QST would be calculated on the gross amount of the sale without deducting the value of the coupon. However, unlike the GST, the manufacturer could make no adjustment for the QST.

As of January 1, 1992, the QST system will be harmonized with the GST in regard to these coupons. The manufacturer will be able to make an adjustment to the QST of 7/107 of the value of the coupon.

In addition, it was also stated that for 1991, concerning discount coupons issued by a retailer and money coupons for non-refundable taxable products and services, the retailer could either treat them as though they had been issued by a manufacturer with an adjustment to the sales tax of 8/108 of the value of the coupon, or process them by determining the QST on the net amount.

As of January 1, 1992, harmonization with the GST system concerning such coupons will be maintained. However, in 1992, the adjustment to the value of the sales tax will be 7/107 of the value of the coupon.

## Cash discounts

As of January 1, 1992, the Québec tax system will be harmonized with that of the GST regarding rules for cash discounts. The cash discount will only be considered if the amount billed by a supplier is net of all discounts. Otherwise, it will not reduce the QST tax base.

## Unified indication of the QST and the GST on the sales slip

The ministère des Finances information bulletin 90-5, issued November 1, 1990, stated that, as of January 1, 1991, it would be possible to combine the amount of QST with that of the GST when these two taxes are shown separately from the sales price. In addition, it was also stated that use of the mathematical factor of 15.56 % would be allowed to calculate the combined amount of the QST and GST, though the factor could not be shown on the sales slip. It was further mentioned that the rounding rule stipulating that only fractions greater than or equal to one half cent can be counted as one whole cent would be applicable to the amount of the combined tax.

As of January 1, 1992, all these rules will be applicable in the QST system, though the mathematical factor of 15.56 % will be replaced by a mathematical factor of 14.49 %

## Newspapers circulated free of charge

The Appendix to the Minister's Statement concerning certain fiscal measures of December 19, 1990 dealing, in particular, with the tax treatment of newspapers circulated free of charge, stated that as of January 1, 1991, a reimbursement would be granted on the purchase of newspapers of the sales tax paid by publishers when they are subsequently circulated free of charge.

As of January 1, 1992, publishers in this situation will be entitled to a reimbursement of the sales tax paid once the ITR mechanism has been implemented.

## Books

The Appendix to the Minister's Statement concerning compensation for the Québec sales tax on books of November 27, 1990, announced a compensation measure for printed books and books on cassette as well as their medium which a person acquires because of a visual handicap. This compensation is equal to the amount of the tax of 8 % in 1991.

This compensation measure will be maintained in the QST system as of 1992 and the compensation will be equal to 7 %. As is the case in 1991, this measure will only apply if the book carries a recognized ISBN (International Standard Book Number).

Since the result of this measure will be that no tax will apply to acquisitions of books, no ITR and no refunds for public sector bodies will be granted for such acquisitions.

## Manufacturers' cash rebates

The ministère des Finances information bulletin 90-5, issued November 1, 1990, stated that for 1991, in the case of a sale where a consumer receives a manufacturer's cash rebate, the QST, as in the GST system, would be calculated on the gross amount of the sale, before deducting the value of the cash discount. However, unlike the GST system, the manufacturer cannot claim an adjustment for the QST in 1991.

As of January 1, 1992, the QST will be harmonized with the GST concerning manufacturers' cash rebates. Thus, the sales tax will be calculated on the gross amount of the sale and the manufacturer will be able to claim an adjustment of 7/107 of the value of the rebate.

## QST reimbursements

As announced last August 30, beginning in 1992, businesses that will be able to obtain a full reimbursement of the amount of QST paid on the purchase of property and services used in the course of their commercial activities, will by the same token receive a reimbursement of the QST on the amount of GST included in the consideration of such property and services.

# 3. Real property

## Federal approach

Generally, in the GST system, the supply of real property is subject to tax, unless a specific exemption applies to such supply.

For instance, building contractors are covered by the GST system just like any other business making taxable supplies : they must collect and remit the GST on all taxable supplies they make and can claim input tax credits (ITCs) for the GST payable on their acquisitions of property and services they use in the course of their business.

The Appendix to the Minister's Statement of last August 30 mentions that the QST would be harmonized, as of 1992, with the GST in regard to the taxation of real property, with the exception of the purchase of real property made exclusively for resale purposes. It was also announced that exempt supplies under the GST would also be exempt under the QST. The special rules under the GST applicable under certain circumstances to real property will also be introduced into the QST system.

## Reimbursement of QST on new residences

The Appendix to the Minister's Statement of August 30, 1990 announced that a QST reimbursement of 2.5 % of the purchase price would be granted for new residences of $ 150 000 or less and that a partial reimbursement would be granted for those priced between $ 150 000 and $ 175 000. This partial reimbursement would be determined according to the same method as provided for under the GST for supplies of residences whose consideration is between $ 350 000 and $ 450 000.

On the other hand, in the GST system, the builder can, without obligation, accept the claim for reimbursement of 2.5 % to which the purchaser is entitled. The builder then deducts the amount to be reimbursed from the amount of GST due at the time of purchase of the residence. The same rule will apply under the QST. In this case, the QST will apply to the reduced amount of GST, i.e. after the 2.5 % reimbursement granted by the builder. If the builder accepts the purchaser's reimbursement claim under the GST system, he must also accept it under the QST.

In the case where the builder does not deduct the amount of the reimbursement from the GST due, the QST reimbursement will be calculated taking into account a reimbursement of 2.5 % of the cost of the house plus net GST, as well as the fact that the reimbursement under the GST system has been taxed under the QST system. In addition, when as a result of the price of the residence, the purchaser is entitled to a reimbursement only under the GST system, the amount of QST paid on the amount of GST reimbursed will also be reimbursed.

Moreover, the amount of GST will not be taken into consideration in determining whether the thresholds of $ 150 000 and $ 175 000 have been exceeded or not.

In the case of housing cooperatives, an individual who purchases a share in the cooperative with a view to obtaining the right to use a housing unit of the cooperative as a residence, will be entitled to a similar reimbursement if the cooperative has paid QST on the acquisition of the housing real property. In this case, the threshold at which the purchaser is entitled to the maximum reimbursement for the acquisition of such share will be $ 171 735 (i.e. the $ 150 000 threshold plus 14.49 %). However, the reimbursement will be identical to that granted for a new residence of a comparable price, before application of the gross-up for the GST and QST paid by the cooperative.

**REIMBURSEMENT FOR A NEW HOUSING UNIT**

| Price of housing unit[1] | Cost of a share in the cooperative | Maximal reimbursement |
|---|---|---|
| $ 75 000 | $ 85 868 | $ 2 091 |
| $ 100 000 | $ 114 490 | $ 2 788 |
| $ 150 000 | $ 171 735 | $ 4 181 |
| $ 165 000 | $ 188 909 | $ 1 673 |
| $ 175 000 | $ 200 358 | — |

1 Price excluding GST.

### Self-supply of housing unit

In the case where an individual builds his own residence and the supply of the land does not constitute a taxable supply by sale, the GST reimbursement is 0.7 % rather than 2.5 %. For QST purposes, the reimbursement will also be 0.7 %.

### Choice concerning residential real property located in an isolated region

Under the GST, a builder who is registered can make a choice concerning a residential complex located in an isolated region so that the supply of the real property or of a residential unit in it, to officers or employees, be deemed not to be one. If such choice is made under the GST, it must also be made under the QST.

# 4. Financial services

## Federal approach

The financial intermediation sector is structured in such a way that it is difficult to apply a sales tax to it. The price of services offered is often implicit. For instance, the price charged by a bank to receive deposits or lend money is contained implicitly in the spread between the interest rate paid by borrowers and the rate of return offered to depositors. Now, this profit margin is extremely difficult to determine on an operating basis. For this reason, the supply of financial services is generally exempt for purposes of the application of the GST. Thus, businesses providing such services pay GST on supplies acquired in the course of their activities and may not claim ITCs.

In addition, to afford fair treatment to listed financial institutions and businesses whose financial activities are purely ancillary to their main activities, a threshold minimum financial revenue rule is used to qualify certain businesses as financial institutions for purposes of the application of certain relief rules provided in regard to an institution of this kind.

Moreoer, since the supply of financial services relating to exports and precious metals is zero-rated, businesses supplying such services can claim ITCs.

## Provincial situation

Although the exemption of financial intermediation services would resolve the problem of determining the price of financial services, it would raise other difficulties. The exemption of financial services supplied in Québec would threaten to penalize financial institutions established in Québec since they could not obtain ITRs. Since some financial institutions carry on business in various parts of Canada, they could have an incentive to reorganize their acquisitions of property and services to reduce their taxes. This situation would have the following consequences, among others. First, it could provide financial institutions whose activities are spread across Canada with a significant comparative advantage over those whose activities are concentrated in Québec. Second, it could have an adverse effect on Québec suppliers as a result of a possibly reduced volume of acquisitions of property and services in Québec by financial institutions.

## Zero-rating of financial services

The new QST system will adopt the federal approach of not taxing the supply of financial services. However, in view of the problems raised above and to maintain the competitiveness of Québec financial institutions, businesses that supply financial services will be able to claim ITRs under the Québec system. Thus, all financial services will be zero-rated under the QST system.

The general zero-rating of financial services, that will enable financial institutions to enjoy the same tax treatment as other businesses in regard to the tax paid on their inputs, will make the special rules applicable to such institutions under the GST unnecessary under the QST. The federal rules were introduced because most services supplied by financial institutions were exempt and consequently did not give rise to ITCs. These special rules, which will not be adopted in the Québec system, include :

– rules to simplify the calculation of ITCs ;

– a relief rule within a closely related group and specific features as to the registration of a listed financial institution for purposes of the application of this rule. Although this special rule has not been incorporated, measures will be stipulated so that savings and credit unions that can benefit from them under the GST can, in spite of their structure, benefit like other businesses from the general choice allowing qualifying members of a closely related group, that carry on commercial activities exclusively, to treat most supplies made among themselves as though they had no consideration ;

– rules relating to the merger and acquisition of a listed financial institution.

Similarly, the presumption stipulated in the federal system according to which a supply constitutes the supply of a financial service when more than half of a single consideration for a mixed supply relates to a financial service, will not be introduced into the Québec system.

In addition, the QST system will include rules to prevent ITRs from being granted in regard to supplies of property and services acquired by financial institutions when such property or such services are intended to be re-supplied for lesser consideration.

## Tax on insurance premiums

As provided in the Appendix to the Minister's Statement of August 30, 1990, the current system concerning the Administration of the GST and the Reform of Consumption Taxes in Québec, the current system of taxation of insurance premiums will continue to apply along with the new QST. Insurance premiums currently subject to tax will continue to be taxable at the general rate of 9 % and at the rate of 5 % in the case of automobile insurance premiums. Businesses for which they constitute inputs will not be able to claim a reimbursement of the tax on insurance premiums paid on them.

However, businesses that receive, as consideration for contracts they supply, insurance premiums to which the current system applies will be entitled to ITRs under the new QST. Under the QST, these premiums will relate to contracts whose supply constitutes either a zero-rated financial service, or a taxable non-financial service, given the harmonization of the QST with the GST. To prevent any double taxation that may result from the parallel application of the current system and the QST to the same insurance premium, premiums that are payable under contracts whose supply constitutes a non-financial service to which the QST will apply will not be subject to the tax on insurance premiums.

Moreover, businesses that settle an insurance claim by directly purchasing the property replacing that covered by a loss or by paying for the services to repair it, rather than by paying a money indemnity, will not be entitled to a reimbursement of the QST paid on such property or services, since they cannot be considered as inputs.

## Revenue measures

While the GST will significantly increase the tax burden of financial institutions, the QST provides them with a substantial tax benefit. Québec's system will enable businesses that supply financial services in Québec to obtain a reimbursement of the QST paid on their inputs, many of which are currently taxable.

However, without a compensating measure, the zero-rating of financial services would have a substantial effect on the revenue of the Québec government. In view of the situation of public finances, of the significant tax benefit related to this zero-rating and to ensure greater neutrality with other sectors of activity, measures will be introduced so that the overall tax burden of financial institutions will not be reduced. Consequently, the rate of the tax on capital applying to such institutions will be increased as of January 1, 1992. In the case of banks, loan corporations, trust corporations and corporations trading in securities, an additional tax of 1.75 % of their paid-up capital will be levied. A tax equivalent to the supplementary tax will also be applied to savings and credit unions, federations and confederations which are a category of financial institutions that will receive ITRs. In this regard, their reserve and their capital will, in particular, correspond to paid-up capital. In the case of insurance corporations, the rate applicable to life, health and dismemberment insurance premiums, presently 2 % and the rate applicable to other types of insurance premiums, currently 3 %, will be raised to 2.5 % and 3.5 % respectively. In spite of these measures, the tax burden on the financial intermediation industry will remain on the whole comparable to what it was before the QST.

Moreover, for financial institutions whose taxation year straddles January 1, 1992, the supplementary tax as well as the higher rates of tax on capital in effect as of January 1, 1992 will apply proportionately to the number of days in the taxation year following December 31, 1991. This proportional application will also be extended to the increase in the tax on capital and corporate income tax announced last August 30, applicable as of January 1, 1992. Furthermore, concerning the increase in the employers' contribution to the Health Services Fund announced at the same time and applicable on the same date, it will apply to wages paid or deemed paid after December 31, 1991. Therefore, instalment payments will have to be increased to reflect the new rates beginning with the instalments for January 1992.

Finally, the amount of the supplementary tax paid applicable to cooperative financial institutions will also be deductible in calculating their income.

# 5. Transportation services

Under the GST, the supply made in Canada of a freight or passenger transportation service is generally taxable.

Moreover, in general, the supply of freight transportation service to a point outside Canada and that from a point outside Canada is zero-rated. This also applies to the supply of a passenger transportation service with the exception of an air passenger service.

However, special rules apply according to whether a freight transportation service or a passenger transportation service is supplied.

In view of the provincial context of Québec's tax system, the set of rules under the GST system concerning the taxation of transportation services cannot be transposed into the QST system. Special provisions specific to the Québec tax system will be developed for the taxation of transportation services. However, the concepts used in the GST will we adopted in the QST, with adaptations. Since some of the special measures have been developed considering the non-taxation of transportation services by other provinces, and so could be changed if any of them decide to tax these services.

## Freight transportation

In general, the GST provides that the supply of a freight transportation service between two points in Canada is taxable, while such supply between two points outside Canada is zero-rated. Similarly, the supply of freight transportation service to or from a point outside Canada is zero-rated, including the supply of a freight transportation service between two points in Canada when such service is part of a continuous outbound freight movement. In this regard, documentary evidence showing that the service is part of a continuous freight movement service to or from outside Canada is required. Moreover, in the case of a supply of a freight transportation service to a point outside Canada, the value of the consideration for the supply must be at least $ 5 for it to be zero-rated.

The QST will be adapted to the GST to provide for the taxation of freight transportation services between two points in Québec and the zero-rating of international freight movement services and freight transportation services between two points outside Québec. This will also be the case concerning the administrative requirements of the rules covering transactions between carriers.

In addition, the approach under the GST concerning the supply of an international freight movement will be transposed to the transportation of freight whose origin is in Québec and destination is in Canada but outside Québec. The supply of such a transportation service will be zero-rated. However, the QST will provide that the supply of a freight transportation service to a destination outside Québec will remain zero-rated if the value of the consideration of the supply is at least $ 5.35.

As for the supply of a transportation service relating to property brought into Québec from a point in Canada, the QST will provide that such supply is taxable, unless the transportation service is part of a continuous international freight movement. This approach complies with the taxation rules applicable to tangible personal property brought into Québec.

Moreover, a person who makes a supply of a freight transportation service that is not zero-rated in Québec must register for purposes of collecting and remitting the QST.

## Passenger transportation

In general, the GST provides that the supply of a passenger transportation service whose origin and termination are in Canada is taxable. However, the supply of municipal transit services is exempt.

The GST also provides special rules for the supply of a transborder transportation service. Under these rules, the supply of a transborder transportation service that does not include air transportation is zero-rated. The GST provides that a transborder transportation service that includes air transportation is generally taxable to the extent that the transportation service is rendered within a taxation area extended to the continental portion of the United States and the islands of St. Pierre and Miquelon.

The QST system will be adapted to the GST to provide for the taxation of the supply of a passenger transportation service when the origin and termination are located in Québec and the exemption of the supply of municipal transit services.

### *Air services*

The supply of a passenger transportation service that is part of a continuous journey including air transportation, is taxable under the GST in the following two situations:

- the origin of the continuous journey is in Canada and the termination of the continuous journey is in the taxation zone, regardless of where the consideration for the supply is paid. The taxation zone includes Canada, the continental United States and the islands of St. Pierre and Miquelon;

- the origin of the continuous journey is within the taxation zone but outside Canada, and the termination of the continuous journey is in Canada and the consideration for the supply is paid in Canada.

Moreover, it is further provided that the supply of a passenger transportation service that is part of a continuous journey including transportation by air is zero-rated, among others, when the origin or termination of the continuous journey or of a stopover that is part of it, is outside the taxation zone.

The tax approach, based mainly on the origin and developed in the GST system for the supply of a passenger transportation service that is part of a continuous journey including transportation by air, will be retained in the QST system. However, in view of the provincial context and the non-taxation of the supply of passenger transportation services by the other provinces, the QST system will include special provisions to allow for this situation.

To this end, a taxation zone will be defined in the QST system for the supply of a passenger transportation service that is part of a continuous journey including transportation by air. The Québec taxation zone will include the islands of St. Pierre and Miquelon, the provinces of Québec, Ontario and the Atlantic provinces, as well as the states of Maine, Massachusetts, Connecticut, New Hampshire, Vermont, New York, Pennsylvania and New Jersey. This zone generally includes the provinces and American states within about 500 air kilometres of Québec's borders.

The tax consequences arising from the introduction of this taxation zone in the QST system are similar to those obtained under the GST system.

The supply of a passenger transportation service that is part of a continuous journey including transportation by air will be taxable, when the origin of the continuous journey is in Québec and the termination of the continuous journey is located in the Québec taxation zone, regardless of whether the consideration for the supply was paid in Québec or outside Québec. The supply of such a service will be zero-rated however, if the continuous journey includes a stopover outside the taxation zone.

Similarly, the supply of a passenger transportation service that is part of a continuous journey including transportation by air will be taxable, when the origin of the continuous journey is within the Québec taxation zone but outside Québec, the termination of the continuous journey is in Québec and the consideration for the supply is paid in Québec.

To take into account the special situation of the Outaouais region and the location of transportation terminals, the QST will provide that the supply of a passenger transportation service that is part of a continuous journey including transportation by air, originating in the Ontario part of the national capital region, as designated in the National Capital Act and whose termination is in Québec, will be taxable regardless of whether the consideration for the supply is paid in Québec or outside Québec. This will also be the case for this type of supply when the origin is in the Ontario part of the national capital region and its termination is not in Québec simply because of the fact that the ticket stipulates a departure and a return to a point in the Ontario part.

Moreover, the QST will be harmonized, taking the required adaptations into account, with the GST system concerning the provisions for the zero-rating of the supply of a passenger transportation service that is part of a continuous journey including transportation by air.

### *Services other than by air*

Concerning the supply of a passenger transportation service that is part of a continuous journey not including transportation by air, the GST does not stipulate a taxation zone extending outside Canada. In general, the supply of such passenger transportation service is taxable when the origin and termination of the continuous journey are located in Canada. Consequently, the supply of a passenger transportation service that is part of a continuous journey not including transportation by air is zero-rated when the origin or termination of the continuous journey is located outside Canada. Similarly, such a supply is zero-rated if the continuous journey includes a stopover outside Canada and the passenger transportation service, which is part of the continuous journey has its origin and termination in Canada and if, at the start of the journey, it is provided that the individual will be outside Canada for an uninterrupted period of at least 24 hours during the journey.

Considering the provincial context, and although its approach is based mainly on the place of origin, the QST system will provide for a taxation zone applicable to the supply of a passenger transportation service not including transportation by air.

This taxation zone will be identical to the Canadian component of the Québec taxation zone applicable to the supply of a passenger transportation service including transportation by air. It will thus include Québec, Ontario and the Atlantic provinces, but will not include the American states and the islands of St. Pierre and Miquelon.

Consequently, the approach that will be adopted by the QST system for the supply of a passenger transportation service that is part of a continuous journey will be followed concerning the supply of a passenger transportation service that is part of a continuous journey not including transportation by air, to determine the taxation rules applicable to the taxation zone.

The supply of a passenger transportation service that is part of a continuous journey not including transportation by air will be taxable if the origin of the continuous journey is in Québec and the termination of the continuous journey is in the taxation zone, regardless of whether the consideration for the supply was paid in Québec or outside of Québec.

This will also be the case for the supply of a passenger transportation service that is part of a continuous journey not including transportation by air, when the origin is within the taxation zone but outside Québec, the termination of the continuous journey is in Québec and the consideration is paid in Québec.

However, the supply of a passenger transportation service that is part of a continuous journey not including transportation by air will be zero-rated if a stopover outside the taxation zone is stipulated at the outset of the continuous journey and it is provided that the passenger will be outside the taxation zone for an uninterrupted period of at least 24 hours during the journey.

In addition, to take into account the special situation of the Outaouais region, the QST will provide that the supply of a passenger transportation service that is part of a continuous journey not including transportation by air, with the exception, in particular, of a taxi transportation service, originating in the Ontario part of the national capital region and whose termination is in Québec, will be taxable regardless of whether the consideration for the supply is paid in Québec or outside Québec. This will also be the case for this type of supply when the origin is in the Ontario part of the national capital region and the termination is not in Québec simply because of the fact that the ticket stipulates a departure and a return to a point in the Ontario part. However, this supply will be zero-rated if a stopover outside the taxation zone is stipulated at the outset of the continuous journey and it is provided that the passenger will be outside the taxation zone for an uninterrupted period of at least 24 hours during the journey.

Moreover, the QST system will be harmonized with the GST in regard to the provisions for the zero-rating of the supply of a passenger transportation service that is part of a continuous journey that does not include transportation by air, with the required adaptations.

### *Baggage transportation services*

The GST provides for the zero-rating of the supply of a service of transporting baggage made for the recipient of the zero-rated supply of a passenger transportation service for consideration that is not included in the consideration for the passenger transportation service. This rule will be adopted by the QST.

### *Other features*

As a consequence of the provisions that will be introduced into the QST, for purposes of determining taxable transactions in Québec, the supply of tangible personal property or a service made in Québec aboard a conveyance will be taxable. However, supplies of tangible personal property or services made aboard an aircraft during flights to or from a place outside Québec will be zero-rated.

Moreover, a person making a non-zero-rated supply of a passenger transportation service in Québec must register for purposes of collecting and remitting the QST.

To ensure the integrity of the QST system, provisions will be introduced to limit the segmentation of routes to a place outside Québec, but in the taxation zone. Thus, concerning the taxable supply of a non-stop passenger transportation service to a place outside Québec in the taxation zone including a segmentation of the trip, the acquisition of many tickets will be treated as the acquisition of a single ticket, regardless of whether or not they were acquired at the same time.

# 6. The tourism sector

## Tour packages

The GST system includes special rules for the supply of tour packages. Under these rules, the tax is applicable to the fraction of the consideration of the supply relating to the taxable portion of a tour package. In addition, the determination of the taxable portion of a tour package is subject to special calculations when the person making the supply is not the first supplier.

The rules of the GST will be transposed to the QST system. The taxable portion of a tour package will be established in the QST system by considering the property and services included in the tour package that would be taxable had they been supplied other than as part of such a tour. In addition, for purposes of establishing the taxable portion, the exemption for non-taxable supplies will be disregarded, by treating them as if they were taxable or zero-rated, as the case may be.

Furthermore, the first supplier of a tour package will have to advise the person who acquires it as a non-taxable supply because it has been acquired exclusively for purposes of re-supply, of the taxable portion of the related consideration.

In addition, the rule stipulated in the GST system concerning the difference of 10 % between the base fraction established at a particular time and that established at an earlier time will also be introduced into the QST system. The notion of a base fraction at a particular time is used to establish the taxable portion of a tour package when the items included in the tour package are changed between the time of its supply by the first supplier and the particular time.

## Reimbursement to tourists

Like other value-added tax systems, the GST system makes provision, subject to certain requirements that must be satisfied, for a reimbursement of the GST paid on tangible personal property acquired in Canada by foreigners when such property is exported. The reimbursement also covers the GST paid on short-term accommodation during their stay in Canada.

The rules of the GST system will be transposed in the QST system. Thus, non-residents of Canada will be able to obtain a reimbursement of the QST paid on property they export from Canada. The minimum amount of a claim will be $ 7.49, i.e. the QST payable on a taxable supply of $ 100.

Moreover, the current rules applicable to the reimbursement of the QST paid to residents of Canada outside Québec for property they acquired in Québec, other than in the course of carrying on a business, will be maintained.

## Short-term accommodation sold outside Canada

The GST system includes special rules concerning the supply made outside Canada of short-term accommodation to non-residents. Under these rules, the registered or non-registered supplier can obtain, subject to certain requirements to be satisfied, a reimbursement of the tax paid for short-term accommodation he supplies to a non-resident of Canada.

The rules of the GST system will be transposed to the QST system, bearing in mind that the QST will not apply to a non-taxable supply.

## Conventions, seminars and other similar activities

In general, the GST system provides that persons who enter Canada to make a taxable supply of admission to a convention, a seminar, an activity or an event must register for purposes of the GST and collect the tax.

The federal government has issued special rules concerning conventions for non-residents of Canada, particularly when these activities are organized by non-residents of Canada. Thus, in general, an organizer of a convention or other qualifying activity who is a non-resident of Canada will not have to collect the GST when he reasonably expects that no more than 25 % of the admissions will be collected from Canadian residents ; such admissions not being taxable. In addition, the organizer can obtain a reimbursement of the GST paid for the premises used for purposes of the convention or other eligible activities.

On the other hand, concerning conventions and other eligible activities for which the admissions are taxable, a special rule is also stipulated to grant organizers a reimbursement of the GST applicable for admission fees for participants who are not residents of Canada in proportion to the amount of the cost relating to the premises used for purposes of the qualifying activity. A participant who is a non-resident of Canada can therefore receive this reimbursement directly.

The rules relating to non-taxable admission fees for conventions and other eligible activities included in the GST system will be incorporated into the QST system. Thus, the QST will not apply to admissions to conventions and other eligible activities non-taxable under the GST system.

Moreover, concerning conventions and other eligible activities for which admissions are taxable under the GST, it will be stipulated in the QST system that such admissions relating to non-residents of Québec will constitute zero-rated supplies. For this purpose, the notions of convention and other eligible activities defined in the federal tax system will be transposed to the QST system with adjustments to reflect certain exclusions such as dinner talks.

# 7. The public sector

For the purposes of the GST, the public sector consists of provincial governments, the federal government and public service bodies, i.e. municipalities, universities, school boards, hospital administrations, charities and non-profit organizations. As announced in the Appendix to the Minister's Statement of last August 30, the treatment of activities of public sector bodies under the QST will be harmonized with the GST as of January 1, 1992. Supplies made by public sector bodies will not be taxable except when such supplies relate to activities of a commercial nature. As a result, acquisitions made by public sector bodies will generally not give rise to ITRs.

This situation, if left this way, would increase the tax burden of many public sector bodies. However, the new reciprocal taxation accord reached by the Québec government and the federal government, as well as the partial QST rebates that will be offered to defined public service bodies and charities, will prevent the tax burden on the public sector from increasing.

## Governments of Québec and of Canada

The requirement that governments pay their own taxes has no incidence on their financial situation since these amounts affect their revenue and expenditure equally. By virtue of certain constitutional provisions, the governments of Canada and of the provinces and their agents enjoy tax immunity concerning taxes that could be collected by the other level of government. Considerations of administrative simplicity for governments and their suppliers have influenced decisions on the imposition of various taxes on governments.

Since 1978, the Québec government and its agents are required to pay the Québec sales tax. This situation will continue to apply during 1991.

Moreover, according to the provisions of a reciprocal tax agreement reached with the Government of Canada, the Québec government has paid, since 1977, all amounts collected under the Excise Tax Act in exchange for payments of the federal government's share equivalent to the QST on its purchases intended for Québec.

Since January 1, 1991, an appreciably different reciprocal tax agreement has been in effect between the federal and Québec governments. The Québec government does not pay GST on its acquisitions while the federal government as well as some of its agencies do not pay QST on their acquisitions in Québec, the Québec government being understood to include the corporations and agencies listed in the appendix to the reciprocal tax agreement. Officers responsible for acquisitions in these institutions must provide an exemption certificate to their suppliers in order to enjoy this exemption.

For purposes of simplicity for suppliers, the tax status of the Québec government concerning the QST will be harmonized with that applicable to the GST. Thus, as of January 1, 1992, the corporations and agencies exempt from GST on their acquisitions under the reciprocal tax agreement will also be exempt from QST on their acquisitions. Entities not on the list appended to this agreement will continue to pay QST as they do now.

The corporations and agencies of the Québec government that will enjoy exemption from the QST as of 1992 are :

**Government departments**

Affaires culturelles
Affaires internationales
Affaires municipales
Agriculture, Pêcheries et Alimentation
Approvisionnements et Services
Communautés culturelles et Immigration
Communications
Conseil du Trésor
Conseil exécutif
Éducation
Énergie et Ressources
Enseignement supérieur et Science
Environnement
Finances
Forêts
Industrie, Commerce et Technologie
Justice
Loisir, Chasse et Pêche
Main-d'oeuvre, Sécurité du revenu et Formation professionnelle
Revenu
Santé et Services sociaux
Sécurité publique
Tourisme
Transport
Travail

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Agence québécoise de valorisation industrielle de la recherche
Assemblée nationale
Bibliothèque nationale du Québec
Bureau d'audiences publiques sur l'environnement
Bureau de révision de l'évaluation foncière du Québec
Caisse de dépôt et placement du Québec
Conseil consultatif du travail et de la main-d'oeuvre
Conseil de la conservation et de l'environnement
Conseil de la famille
Conseil de la langue française
Conseil de la science et de la technologie
Conseil des affaires sociales
Conseil des collèges
Conseil des communautés culturelles et de l'immigration
Conseil des services essentiels
Conseil des universités
Conseil du statut de la femme
Conseil supérieur de l'éducation
Commissaire à la déontologie policière
Commission administrative des régimes de retraite et d'assurances
Commission d'accès à l'information
Commission d'appel de francisation des entreprises
Commission d'appel en matière de lésions professionnelles
Commission de la construction du Québec, en ce qui concerne les fournitures reliées aux programmes de formation professionnelle, de prévention et d'inspection
Commission de la fonction publique
Commission de la santé et de la sécurité du travail, en ce qui concerne les fournitures relatives aux programmes de prévention et d'inspection et d'indemnisation des victimes d'actes criminels
Commission de protection de la langue française
Commission de protection des droits de la jeunesse
Commission de protection du territoire agricole du Québec
Commission de reconnaissance des associations d'artistes
Commission de toponymie
Commission des affaires sociales
Commission des biens culturels
Commission des courses de chevaux du Québec
Commission des droits de la personne
Commission des normes du travail
Commission des services juridiques
Commission des transports
Commission des valeurs mobilières du Québec
Commission municipale du Québec
Commission québécoise des libérations conditionnelles
Corporation d'hébergement du Québec
Corporations locales d'aide juridique
Corporations régionales d'aide juridique
Curateur public
Directeur général des élections — Commission de la représentation électorale
Fondation de la faune du Québec
Fonds administrés par la Régie des marchés agricoles du Québec
Fonds d'aide aux recours collectifs
Fonds d'aide aux victimes d'actes criminels
Fonds d'amortissement afférent à des emprunts d'établissements universitaires
Fonds d'amortissement afférent à des emprunts d'organismes de santé et de services sociaux du Québec
Fonds d'amortissement afférent à des emprunts de collèges d'enseignement général et professionnel du Québec
Fonds d'amortissement afférent à des emprunts de commissions scolaires
Fonds d'assurance-prêts agricoles et forestiers
Fonds d'entretien et de réparation des machines de bureau
Fonds d'information géographique et foncière
Fonds de financement
Fonds de formation à distance
Fonds de la recherche en santé du Québec

Fonds de la réforme du cadastre québécois
Fonds de reprographie gouvernementale
Fonds de service aérien gouvernemental
Fonds des cautionnements des agents de voyages
Fonds des fournitures et de l'ameublement
Fonds des services de placement médias
Fonds des services de santé
Fonds des services de télécommunications
Fonds des services informatiques
Fonds du Bureau de la statistique du Québec
Fonds en fidéicommis
Fonds Les publications du Québec
Fonds pour la formation de chercheurs et l'aide à la recherche
Fonds pour les équipements informatiques
Fonds spécial olympique
Inspecteur général des institutions financières
Institut de Police du Québec
Institut de recherche et d'information sur la rémunération
Institut québécois de recherche sur la culture
Institut québécois du cinéma
Office de la langue française
Office de la planification et de développement du Québec
Office de la sécurité du revenu des chasseurs et piégeurs cris
Office de protection du consommateur
Office des personnes handicapées du Québec
Office des professions du Québec
Office des ressources humaines
Office des services de garde à l'enfance
Office du crédit agricole du Québec
Protecteur du citoyen
Régie de l'assurance-dépôts du Québec
Régie de l'assurance-maladie du Québec
Régie de la sécurité dans les sports
Régie des assurances agricoles du Québec
Régie des entreprises de construction du Québec
Régie des loteries et courses du Québec
Régie des marchés agricoles et alimentaires du Québec
Régie des permis d'alcool du Québec
Régie des rentes du Québec
Régie des télécommunications
Régie du cinéma
Régie du gaz naturel
Régie du logement
Secrétariat à la politique linguistique
Société d'exploitation des Ressources éducatives du Québec
Société d'habitation du Québec, en ce qui concerne les fournitures relatives aux programmes d'aide aux personnes
Société d'investissement jeunesse
Société de développement des coopératives
Société de développement industriel du Québec
Société de l'assurance-automobile du Québec
Société des traversiers du Québec
Société générale des industries culturelles, en ce qui concerne les fournitures reliées à l'administration de tous ses programmes sauf celles reliées à la gestion de son parc immobilier
Société immobilière du Québec
Société québécoise de récupération et de recyclage
Tribunal d'appel en matière de protection du territoire agricole
Vérificateur général

On the other hand, the Québec government and its agencies will continue to pay the other taxes and duties as they do now.

It should be recalled, finally, that the reciprocal tax agreement does not alter the obligation of the federal and Québec governments to collect the various consumption taxes on the taxable supplies they make.

## Selected public service bodies

Under the GST, selected public service bodies are municipalities, universities, public colleges, school boards and hospitals administrations. These bodies do not receive special treatment under the existing sales tax. Consequently, they must absorb the taxes levied directly on their acquisitions as well as indirect tax burden from taxes paid by their suppliers on their inputs.

To prevent the reform of the QST from increasing the tax burden on selected public service bodies, acquisitions of such bodies that do not entitle them to ITRs will, as in the GST system, give rise to a partial QST rebate, in accordance with the government's commitment that the reform would not impose an additional tax burden on public sector agencies. The rates of the rebate were established according to the four groups adopted under the GST system, i.e. municipalities, universities and public colleges, school boards and hospitals administrations. The definitions of eligible bodies and eligibility criteria for the partial QST rebates will also generally be the same as those of the GST system.

The rates of the partial rebate were determined so as to maintain an equivalent tax burden compared to the situation before the reform. This burden was assessed taking into account direct taxes on acquisitions by these bodies and indirect taxes collected on acquisitions of suppliers of these bodies, which are passed on to public service bodies in their purchase prices.

The rebate rates of the tax paid that will maintain the tax burden of the institutions in question are:

| | |
|---|---|
| Municipalities: | 37 % |
| Universities and public colleges: | 23 % |
| School boards: | 23 % |
| Hospital administrations: | 18 % |

The rates of the partial QST rebate offered to selected public service bodies are less than those of the GST. This situation is essentially attributable to the large number of exemptions these bodies enjoy under the federal sales tax (FST) system that applied before the introduction of the GST. Municipalities were exempted from the FST on the following goods: water works, road cleaning equipment, water purification machines and equipment, pollution control instruments, public transit buses, etc. Similarly, educational institutions were entitled to special exemptions on school furniture and teaching material. Finally, hospitals enjoyed exemptions on almost all their purchases. In this context, the federal government had to offer high rebate rates in order not to increase the tax burden on selected public service bodies. The situation is completely different in the case of the QST since these agencies do not enjoy a special exemption under the current system. Lower QST rebate rates than under the GST system are therefore sufficient to ensure that their tax burden is maintained.

## Charities and non-profit organizations

The tax treatment of charities and non-profit organizations will be harmonized with that of the GST as of January 1, 1992. In addition, these bodies will be entitled to a partial QST rebate of 50 % according to the same rules as those defining eligibility for the partial GST reimbursement, with adaptations.

# 8. Administrative rules

## Registration

Under the GST, in general, every person who is engaged in a commercial activity in Canada must submit a registration application. This principle will be generally adopted and applied, in the context of the QST, to the carrying of a commercial activity in Québec. The period for submission of the application will also be harmonized.

Furthermore, the exceptions mentioned in the GST system, in particular for small suppliers and non-residents of Canada who do not carry on a business in Canada, will be adapted to the Québec context. Thus, a non-resident of Québec who generally does not carry on a business in Québec will not be required to register.

Finally, a non-resident of Québec who has no permanent establishment there who applies for registration or will be required to do so must provide and maintain security acceptable to the Minister of Revenue, according to the same terms as under the GST.

## Reporting periods

Currently, under the GST, reporting periods are subject to a complex set of rules. Special measures are applicable to the frequency of returns, according to whether the volume of a registrant's taxable supplies and that of persons associated with him is more than $ 6 million, is between $ 500 000 and $ 6 million, or is $ 500 000 or less. Reporting periods can be annual, quarterly or monthly. However, monthly returns may be filed if that is more suitable to the needs of a business. Choices are available in this regard.

In general, when a business files monthly or quarterly returns, it has until the end of the month following the period applicable to it to file its return. For a business filing an annual return, the deadline for filing expires three months after the end of its fiscal year. However, in this case, the business must make quarterly instalments, calculated on the basis of an estimate of the GST payable for the current year or based on the amount of GST paid for the preceding fiscal year. Finally, such businesses can choose the calendar year or the fiscal year for income tax purposes as the basis for filing their returns.

Currently, the reporting period under the QST system is monthly. Moreover, unlike the GST, the reform of the QST provides that non-taxable supplies will not be subject to the QST, so that the entire amount of the tax will be collected solely when property is sold at the retail level. As a result of this approach, the amounts of QST retailers must remit will be significantly larger than the situation under the GST system.

In addition, a large number of businesses, whose supplies will not be taxable, will prefer to receive their ITRs monthly for acquisitions of supplies other than property acquired exclusively for re-supply purposes. Thus, harmonization of the QST reporting period with those of the GST, though it affords a degree of administrative simplicity, also includes a financial aspect for the Québec government by allowing merchants to hold large amounts of tax collected for longer periods of time.

Because of this, it has been decided to maintain the reporting periods currently applicable under the QST system for all businesses. Thus, the reporting periods of the QST system in 1992 will correspond to the calendar month, regardless of the volume of taxable supplies. In addition, the deadline for filing, currently the 15th day of the month following the reporting period, will be extended to the end of the month following the expiry of such period. This decision may be revised if it is demonstrated, after consultation, that it would present major administrative problems for small businesses.

Moreover, an exception will be introduced for businesses whose net amount of tax for the preceding calendar year is $ 1 000 or less. In this case, such businesses can choose to file a single annual return, no later than one month after the end of the year unless they choose to file monthly returns. A transitional rule will be provided for 1992 to determine whether this threshold has been exceeded or not.

## Streamlined accounting methods and quick remittance methods

As announced last August 30, the quick remittance method that was not applicable in the QST system in 1991 has been the subject of further study to determine if it could be effectively used in the Québec tax system in 1992. The same is equally true of the quick remittance method available to public bodies. At this stage, it does not appear appropriate to introduce such methods into the QST system.

As for the streamlined accounting methods, the December 19, 1990 Minister's Statement concerning certain fiscal measures mentioned that the experience of using these methods under the GST in 1991 would provide a better assessment of the advisability of introducing them into the QST system in 1992.

An announcement will be made later concerning whether or not streamlined accounting methods and quick remittance methods will be available under the Québec tax system in 1992.

## Choice of separate returns for divisions or branches

In the QST system in 1992, it will be possible to file separate returns for each division or branch of a business, as under the GST system and the current sales tax system, provided the division or branch can be recognized distinctly and its records, books and accounting systems are separately maintained. The choice for the QST system will not depend on the choice made under the GST.

## Extension of filing deadline

In regard to other Québec legislation in terms of consumption taxes, other than the QST, and duties, the deadline for filing returns will be similar to the deadline for purposes of the QST system in 1992, i.e. returns must be filed and remittances made by the end of the following month.

## Tax administration powers

The bill that will be tabled in the National Assembly to implement the full reform of consumption taxes as of 1992 may contain certain harmonization provisions with the GST system concerning tax administration powers. However, to the extent that existing administrative provisions are satisfactory, they will not be changed.

Furthermore, harmonization provisions may be included in particular concerning assessments, new assessments or supplementary assessments, prescription periods, penalties and certain recovery measures.

# 9. Other features of the QST system

## Small suppliers

Under the GST system, businesses with an annual volume of taxable supplies not exceeding $ 30 000, i.e. those qualifying as small suppliers, are not required to register and to collect the GST. However, they cannot claim ITCs for the GST they pay on purchases relating to their business unless they choose to register.

The Appendix to the Minister's Statement of last August 30 mentioned that the QST system would be harmonized, as of 1992, with the federal rule concerning the small supplier's threshold, but only in regard to the supply of services. Therefore, a person who makes both supplies of property and supplies of services will not be able to qualify as a small supplier unless all or virtually all the consideration for other than exempt supplies he makes is drawn from the supply of services, and incidentally from the supply of property.

On the other hand, to the extent that a supplier of services has not registered under the GST to be considered as a small supplier, he will be considered as such for purposes of the QST system as of 1992. Similarly, if he chooses to register for GST purposes, he must also do so for QST purposes. In addition, once this supplier reaches the threshold of $ 30 000 of taxable supplies under the GST system, he will no longer qualify as a small supplier under the QST system.

## Transitional credit for small business

The rule concerning the transitional credit for small business included in the GST system will not be incorporated into the QST system.

## Diplomats and international organizations

As of January 1, 1992, the rules and application details of QST exemptions for diplomats and international governmental organizations recognized by the Québec government will generally be harmonized with those of the GST, with adaptations to the Québec context.

International non-government organizations recognized by the Québec government will, as of the same time, be covered by the application details of QST exemptions generally adapted to those applicable to international organizations recognized by the Québec government. The rules on the recognition of these bodies and those concerning the eligibility of persons employed by them will be maintained. Consequently, discussions will be held with the bodies concerned over the next few months.

## Indians and Indian bands

As of January 1, 1992, the tax treatment of Indians, Indian bands and bodies belonging to Indians under the QST system will be the same as that applicable under the GST.

## Changes to specific taxes and duties

### *Taxation of fuels*

As announced last August 30, the QST has been extended to sales of fuel since January 1, 1991. As of January 1, 1992, in view of the reduction of the rate of the QST from 8 % to 7 %, the fuel tax will be adjusted to maintain prices generally constant in their regard.

It was also specified at that time that the imposition of the QST to sales of fuel necessarily meant that all the provisions of the QST would apply to the sale of such products as of 1992. Thus, in general and in a way comparable to the treatment of other property, the QST paid on acquisitions of fuel by businesses will, as of January 1, 1992, give rise to ITRs. For the sake of standardization and simplification, and considering that businesses can claim a reimbursement of the QST paid on fuel, the amount of the fuel tax applicable to sales of heating oil will be standardized with that applicable to the sale of gasoline as of that date. The following table shows the rates of fuel tax applicable as of January 1, 1992, as announced on August 30, 1990.

**FUEL TAX**
(¢ per litre)

| | Rates as of January 1, 1992 |
|---|---|
| • Gasoline | 10.5 |
| • Heating oil | 10.5 |
| • Propane | 5.6 |

Furthermore, the fuel tax reductions currently provided for peripheral regions and certain other regions of Québec will be adjusted as of 1992 to take into account their impact on the level of the QST. However, in all, the value of the reductions of 4.8 cents per litre of gasoline in peripheral regions, of 2.4 cents per litre in specific regions and of 0.18 to 4.8 cents per litre in border regions and regions bordering on peripheral or specific regions will be maintained at this level.

Moreover, currently, public transit businesses and agencies receive, for most of their transportation services, a reimbursement of part of the tax on fuel consumed for this purpose. The reimbursement takes into account the tax reductions applicable in certain regions of Québec and is equal to the fraction of the amount of tax paid in excess of two thirds of the regular amount of the tax. Taxi businesses and their employees who pay the cost of fuel consumed enjoy equivalent treatment in the form of a tax credit.

In view of the reduction of the fuel tax and considering that all businesses can claim a reimbursement of all the QST paid on fuel consumed for business purposes and that the tax burden on public transit agencies will in general be maintained constant, as announced last August 30, the reimbursement of the tax relating to public transit as well as the tax credit for taxis will be eliminated as of 1992.

## *Taxation of tobacco products*

Since January 1, 1991, the application of the QST has been extended to tobacco products and the rate of the tax on tobacco has consequently been reduced to prevent the tax burden from increasing by more that what was announced in the 1990-1991 Budget Speech.

As announced on August 30, 1990, in view of the reduction in the sales tax rate from 8 % to 7 %, the rates of tax on tobacco will be adjusted as of January 1, 1992 to produce a net increase of about one cent per cigarette. The following table shows the tax rates applicable as of January 1, 1992 as announced last August 30.

**TOBACCO TAX**

| | Rates as of January 1, 1992 |
|---|---|
| • Cigarettes (¢ per cigarette) | 5.88 |
| • Loose tobacco (¢ per gram) | 2.42 |
| • Other tobacco (¢ per gram) | 6.85 |
| • Cigars (% of sale price) | 73 |

Moreover, to maintain the contribution applied to finance the olympic debt at the same amount, the rate of this contribution will be set at 13.895 % of the tax collected as of 1992.

## *Taxation of alcoholic beverages*

Alcoholic beverages are taxed on the basis of where they are consumed. When sold for consumption in an establishment, alcoholic beverages are subject to a specific duty established on the basis of volume, as well as to a general ad valorem duty whose rate is generally equivalent to that of the sales tax. Moreover, sales of alcoholic beverages for consumption elsewhere than in an establishment are subject to a specific tax equivalent to the specific duty, as well as to the QST at the general rate.

As of January 1, 1992, the rate of the general duty will, like the QST rate, be reduced to 7 %. However, as announced on August 30, 1990, the specific duty and tax will be raised accordingly, in addition to an increase of 4 cents per litre of beer and 8 cents per litre for other alcoholic beverages. The rate of the tax and specific duty on beer will then be 0.026 cents per millilitre, while the rate of the tax and specific duty on wine and spirits will be 0.052 cents per millilitre.

## *Inventories*

Every person selling fuel, tobacco, cigars or cigarettes, on which the fuel tax or tobacco tax has been collected in advance, as well as retailers and wholesalers who have in stock, on January 1, 1992, an inventory of alcoholic beverages intended to be sold for consumption outside an establishment and on which the QST has been paid in advance, will have to take an inventory of their stock in hand on January 1, 1992 and remit the applicable tax according to the new rates and amounts, after deducting the portion already remitted, using the form supplied by the Minister of Revenue for that purpose.

## *Telecommunications services*

Currently, telecommunications services are taxes under the Act respecting telecommunications services. A tax at the rate of 8 % is applied to the price of telecommunications a user sends or receives at his expense in Québec, as well as on the rent he is charged for the use in Québec of a telecommunications service.

Since the QST base will be extended to include services, including telecommunications services, as of January 1, 1992, the tax on telecommunications will be replaced by the QST whose rate will be 7 % and the rules applicable for purposes of taxation of telecommunications services will generally be harmonized with those of the GST system, with adaptations as necessary.

Moreover, in the Appendix to the Minister's Statement concenring certain fiscal measures of December 19, 1990, the rule concerning the rounding factor of the tax for telecommunications sent from pay machines was specified for 1991. The same rule will apply as of January 1, 1992. Thus, the QST will continue to be harmonzied with the GST except that the QST will apply to all communications, regardless of price.

# 10. Transitional rules

## General rules concerning property

### *Tangible personal property taxable as of 1992*

#### General principle

Some property that is non-taxable under the QST in 1991 will become tangible personal property taxable at 7 % as of 1992 (hereinafter called newly taxable tangible personal property).

In general, the supply of newly taxable tangible personal property will be subject to QST if all or part of the consideration falls due after December 31, 1991 and is not paid before 1992. However, the QST will not apply to the consideration that falls due or is paid before 1992, except as an effect of the application of this section.

In addition, the supply of a subscription to a magazine for which the consideration is paid after December 31, 1991 will be taxable.

#### Rental supply

The rental supply of newly taxable tangible personal property will be subject to QST :

i) if the rent falls due or is paid after August 1991 and before 1992 ; and

ii) if the rent is attributable to a period after December 31, 1991.

In addition, the rental supply of newly taxable tangible personal property will not be subject to QST :

i) if the rent falls due or is paid before May 1, 1992 ; and

ii) if the rent is attributable to a period before 1992.

#### Return and exchange of tangible personal property after December 31, 1991

In a manner similar to what was announced in the Minister's Statement concerning certain fiscal measures of December 19, 1990, rules for the return and exchange of tangible personal property will be issued for such returns and exchanges made after December 31, 1991 and before February 1, 1992.

## *Currently taxable personal property*

### General principle

The supply of personal property taxable in 1991 will be taxable at 7 % if made after December 31, 1991. However, the supply of such propety will remain taxable at 8 % if the sale is concluded before January 1, 1992.

### Rental supply

The rental supply of personal property will be taxalbe at 7 % for the portion of the rent attributable to a period after 1991 and at 8 % for the portion of the rent attributable to a period before 1992.

However, the rental supply of personal property considered as newly taxable tangible personal property in 1991 will not be subject to QST :

i) if the rent relates to such property that is capital property for the supplier ; and

ii) if the written agreement was reached before August 30, 1990 and has not been amended or renewed since then.

## *Intangible personal property taxable as of 1992*

### General principle

Intangible personal property that is non-taxable in the QST system in 1991 will become taxable at 7 % as of 1992.

The supply of intangible personal property will be subject to QST as of 1992 if all or part of the consideration falls due after December 31, 1991 and is not paid before 1992. However, the QST will not apply to the consideration that falls due or is paid before 1992, except as an effect of the application of the transitional measures mentioned in this section.

### Supply by licence or similar agreement

The supply by licence or similar agreement of intangible personal property will be subject to QST :

i) if the royalty or other similar payment falls due or is paid after August 1991 and before 1992 ; and

ii) if the royalty or other similar payment is attributable to a period after December 31, 1991.

The supply by licence or other similar agreement of intangible personal property to a person other than a consumer will also be subject to QST :

i) if the royalty or other similar payment falls due or is paid after August 1990 and before September 1991 ; and

ii) if the royalty or other similar payment is attributable to a period after December 31, 1991.

On the other hand, the supply by licence or other similar agreement of intangible personal property will not be subject to QST :

i) if the royalty or other similar payment falls due or is paid before May 1, 1992 ; and

ii) if the royalty or other similar payment is attributable to a period before 1992.

These transitional rules will apply to the consideration paid for the use or right to use intangible personal property, if such consideration depends on the proportion of the use or production derived from the property or profits drawn from such use or such production.

## Building materials

As in the GST transitional system, building materials acquired before 1992 held for use by a person and kept in inventory on January 1, 1992, as part of a building construction, renovation or improvement business he carries on, will entitle that person, upon his application, to a reimbursement of the QST paid in their regard.

Building materials included in new construction, renovation or building improvements, or delivered to a construction, renovation or improvement work site will not be eligible for this reimbursement.

The application details of the reimbursement, in particular concerning inventories and excluded goods, will be similar to those included in the GST transitional system. The reimbursement claim must be submitted to the Minister of Revenue before January 1, 1993.

### *Real property taxable as of 1992*

#### Transitional reimbursement of federal sales tax

In the absence of special transitional provisions, newly built residences purchased after January 1, 1992, would be subject to double taxation if the residence was partially built or completed before 1992, since the builder would have assumed the sales tax in 1991 on building materials and other purchases and would have integrated it into the price on which the QST is applied. To correct this situation, a transitional estimated QST reimbursement program will be implemented for newly built residences where construction or renovations were started before 1992.

Therefore, rules similar to those under the GST system will be introduced, since the QST will apply as of 1992 to the sale of newly built residences.

**Detached houses, semi-detached houses and rowhouses**

When a detached house, a semi-detached house or a rowhouse is supplied by sale to an individual, the details of the individual's right to reimbursement will be similar to those introduced for purposes of the transitional reimbursement of the estimated FST for such houses. Thus, the individual will, in particular, have to take possession of the house before July 1, 1992. The amount reimbursed will be 2/3 of the estimated QST if the house is largely completed and if possession is transferred before April 1, 1992, and 1/3 of the estimated QST if it is largely completed and possession is transferred before July 1, 1992.

As is the case under the GST system, the individual will retain the right to reimbursement of 2.5 % granted for a new residence, as described in section 3 of this document.

**Residential complex and residential condominium unit**

Concerning residential complexes and residential condominium units, the details of the builder's right to reimbursement as well as the amount of the reimbursement of the estimated QST, as of January 1, 1992, will be similar to those adopted for purposes of the estimated FST.

Thus, if the complex is 25 % to 50 % complete, the reimbursement will correspond to half of the estimated QST. If it is more than 50 % complete, the reimbursement will be equal to 75 % of the estimated QST.

**Estimated QST**

For purposes of the reimbursement amounts mentioned above, the recipient can choose either of the following methods to compute the estimated QST :

- 3.8 % of the consideration payable, calculated before any tax ; or
- $ 45 per square metre of useable area. The notion of useable area will be similar to that adopted for purposes of the federal reimbursement.

## Agreement reached before a certain date

In general, under the GST system, when the transfer of possession of a single unit residential complex, a condominium residential unit or a condominium residential complex occurs after 1990 and a written agreement relating to its acquisition was entered into before October 14, 1989, the supplier of the complex or residential unit is deemed to have collected, at the time of the transfer, a special tax equivalent to a specified percentage of the consideration for the supply.

This special transition tax, which is deemed collected by the supplier, will not be adopted for purposes of the transitional QST system in 1992. However, to allow for agreements that may have been entered into before the announcement of harmonization measures with the GST system relating to real property last August 30, no QST will be payable by the purchaser who has entered into a written agreement before that date relating to the purchase of a single unit residential complex, a condominium unit or a condominium residential complex if ownership is not transferred to him before 1992 and if possession is transferred to him after 1991.

Moreover, when such an agreement has been entered into before such date, no transitional reimubursement of the estimated QST will be granted for such residential complexes or units. Finally, no ITR will be granted for the various acquisitions of property and services required to complete the work after December 31, 1991.

### Contract for the construction, renovation, conversion or repair of real property or a boat

In the QST system, as of January 1, 1992, when a supply is made under a contract for the construction, renovation, conversion or repair of real property or a boat, the consideration for the supply that falls due or is paid though not due after August 1990 and before 1992 will be deemed to fall due on January 1, 1992 provided the payments are for work done and materials delivered after 1991. However, the QST at 7 % will not apply to the consideration that can be reasonably attributed to porperty delivered or a service performed before 1992, regardless of when the consideration becomes due or is paid.

## General rules concerning services

### *Services taxable as of 1992*

#### General principle

Most non-taxable services under the existing consumption tax system will become subject to the QST at 7 % as of 1992 (hereinafter called newly taxable service).

As with intangible personal property, the supply of a newly taxable service will be subject to QST if all or part of the consideration falls due after December 31, 1991 and is not paid before 1992. However, the QST will not apply to the consideration that falls due or is paid before 1992, except as an effect of the application of this section.

#### Service rendered after 1991

The supply of a newly taxable service will be subject to QST :

i) if the service is rendered after December 31, 1991 ; and

ii) if the consideration for the taxable supply is paid or falls due after August 1991 and before 1992.

The supply of a newly taxable service to a person other than a consumer will also be subject to QST :

i) if the service is rendered after December 31, 1991 ; and

ii) if the consideration is paid or falls due after August 1990 and before September 1991.

**Service rendered before 1992**

The supply of a newly taxable service will not be subject to QST :

i) if the service if entirely or almost entirely rendered before 1992 ; and

ii) if the consideration is paid or falls due before May 1992.

The supply of a newly taxable service that is not entirely or almost entirely rendered before 1992 will not be subject to QST in regard to the consideration relating to the portion of the service rendered before 1992 if such consideration is paid or falls due before May 1992.

The transitional rule under the QST for a lifetime membership fee will be similar to the rule included in the GST system.

### *Services currently taxable*

Services currently taxable under the QST system constitute continuous supplies in regard to which special rules are provided.

## Special rules

### *Continuous supplies of taxable property and services as of 1992*

The supply of property or service delivered, performed or made available in a continuous manner will not be subject to QST :

i) if the property or service is delivered, performed or made available before 1992 ; and

ii) if the consideration is paid or falls due before May 1992.

However, such supply will be subject to QST if the consideration is paid or falls due after April 1992 at a time when the supplier is a registrant, regardless of when the property or service is delivered, performed or made available.

On the other hand, where the invoice for the supply of property or a service that is delivered, performed or made available in a continuous manner covers a period beginning before 1992 and ending after 1991, the property or service will be deemed to be delivered, performed or made available in equal parts every day of the period.

### *Continuous supplies of currently taxable property and services*

The continuous supply of property or a service already subject to the QST in 1991 will be taxable at 7 %, if the property or service is delivered, performed or made available after 1991.

In the case where the invoice for the supply of property or a service that is delivered, performed or made available in a continuous manner covers a period beginning before 1992 and ending after 1991, the property or service will be deemed to be delivered, performed or made available in equal parts every day of the period.

### *Equal payment plans*

When the consideration for the supply of property or a service delivered, performed or made available over a period begining before 1992 and ending after 1991 is paid by the recipient according to an equal payment plan that provides for reconciliation of payments before 1993, the QST will be adjusted, when the supplier issues an invoice to establish such reconciliation, to take into account the value of property or service delivered, performed or made available in 1992, regardless of when the consideration for the supply has been paid.

### *Funeral services*

Currently, the QST applies to the sale price of taxable personal property such as the casket, urn and other taxable personal property indicated in a pre-arranged funeral services contract. On the other hand, in a prepaid funeral services contract, no taxable personal property is sold.

As under the GST, the property and services included in a prepaid funeral services contract will be taxable, at the rate of 7 % as of 1992.

However, the consideration payable by an individual or on his behalf, under a written prepaid funeral services contract in respect of an individual entered into before September 1991, will not be subject to QST, with the exception of the portion of such consideration that relates to personal property subject to the QST at 8 % in 1991.

In addition, when a written prepaid funeral services contract is entered into before September 1991 and the funds relating to the prepaid contract are held by a trustee who is required to acquire such funeral services, the QST will not be payable by the trustee on the supply made after 1991 to the trustee of the funeral services specified in the contract, except in regard to the consideration for such supply that relates to personal property subject to the QST at 8 % in 1991.

### *Telecommunications services*

Every telecommunication sent or received before January 1, 1992 as well as every rental of a telecommunications service attributable to a period before January 1, 1992, will be taxable at the current rate of 8 % under the Act respecting telecommunications.

### *Advertising services*

Every dissemination of an advertising message that takes place before January 1, 1992 will be taxable at the current rate of 2 % under the Act respecting the tax on electronic advertising.

## *Transportation services*

### Freight transportation

The supply of a freight transportation service made by one or more carriers as part of a continuous freight movement will not be subject to QST :

i) if the consideration for the supply is paid or falls due before May 1992 ; and

ii) if the shipper transferred possession of the freight to the first carrier responsible for the continuous freight movement before 1992.

However, if the shipper does not transfer possession of the freight to the first carrier responsible for the continuous freight movement before 1992 and the consideration for the supply is paid or falls due after August 1991 and before 1992, QST will apply as of January 1, 1992.

### Passenger transportation

The supply of a passenger transportation service beginning before 1992 and for which the consideration for the supply is paid or falls due before May 1992 will not be subject to QST.

However, the supply of a passenger transportation service beginning after 1991 and for which the consideration is paid or falls due after August 1991 will be taxable under the QST system.

The system provides that, in regard to the supply of a transportation pass valid for a period beginning before 1992 and ending after January 1992, the QST will apply, proportionally to the number of days after 1991, to the consideration paid or falling due after August 1991 and before May 1992.